

PIERCE COUNTY HOUSING AUTHORITY
Pierce County, Washington
July 1, 1994 Through June 30, 1995

Schedule Of Findings

1. The Housing Authority Should Prepare Accurate Financial Reports And Improve General Ledger Internal Controls

The Pierce County Housing Authority financial reports for fiscal year 1995 contained numerous errors. The errors were the result of inaccurate data accumulated in the accounting system due to material weaknesses in accounting controls and significant turnover of accounting staff. The inaccuracies included transactions posted to wrong funds and in incorrect amounts. The weak controls are discussed throughout the findings in this report and primarily include:

- a. The current general ledger system cannot be closed out, thus allowing transactions to be posted to the incorrect fiscal period.
- b. The general ledger was a 'moving' target which changed at least four times during the course of the audit.
- c. General ledger journal entries were prepared by management personnel without review or approval prior to entry into the general ledger system.
- d. Internal audit adjustments had no supporting documentation.
- e. Lack of closing review performed on the monthly Housing Assistance Payments failed to detect prior year Housing Assistance Payment data merged with current year data in the general ledger system, resulting in the processing of incorrect checks to landlords.
- f. No computer controls prevented transaction posting dates from differing from the actual calendar date of posting.

This finding has been continually repeated since 1991.

Both federal and state directives require accurate financial reports. The United States Department of Housing and Urban Development (HUD) Handbook 7420.7, Chapter 12-3 states in part:

Public Housing Authorities are required to maintain complete and accurate books of accounts and records for each program under the Annual Contributions contract. The books and records must comply with HUD requirements and must permit a speedy and effective audit.

RCW 43.09.230 states in part:

The state auditor shall require from every local government financial reports covering the full period of each fiscal year, in accordance with the forms and methods prescribed by the state auditor, which shall be uniform for all accounts of the same class.

Due to the deficiencies of the housing authority's internal control structure, its accounting system, and its inability to prepare accurate and complete financial statements, we have concluded the housing authority has significant and pervasive control problems.

We recommend housing authority officials take immediate action to correct the above noted weaknesses to enable the establishment and maintenance of current, accurate, and complete accounting records and that management review these records in a timely manner.

2. The Housing Authority Should Strengthen Internal Controls Over Purchases

During our testing of construction for the various apartment complexes managed by the housing authority, we noted duplicate billings for carpet and vinyl replacements. Further, units receiving carpeting and vinyl one month might have it replaced one or two months later.

The housing authority's primary internal control over purchasing is approval of purchase orders by a department supervisor. This assumes the supervisor knows whether the purchase is necessary. Because the maintenance department supervisors do not track repairs by unit, they would not know whether a purchase order is accurate or necessary. They also would not know whether an invoice for a particular unit had been doubled billed or whether replacements by unit appeared excessive.

The maintenance department supervisors believed the finance department was tracking such information. The finance department believed tracking was the maintenance department's responsibility. If the purchase order was approved, finance considered the expenditure legitimate and processed it for payment when the invoice was received.

RCW 42.24.080 states in part:

All claims presented . . . by persons furnishing materials, rendering services or performing labor . . . shall be audited, before payment, by an auditing officer . . . of the municipal corporation or political subdivision . . . The form shall provide for the authentication and certification by such auditing officer that the materials have been furnished, the services rendered or the labor performed as described, and that the claim is a just, due and unpaid obligation against the municipal corporation . . . and no claim shall be paid without such authentication and certification

When internal controls over purchasing are weak, the risk increases that errors or irregularities could go undetected for some time. Inaccurate data on the purchase orders (such as unit identification) could lead to the unnecessary replacements and duplications. In addition, such weaknesses in the internal controls impair the ability to prepare accurate and timely financial information.

We recommend housing authority officials track major repairs and purchases by unit and review such information when considering the approval of purchase orders.

3. The Housing Authority Should Strengthen Controls Over Executive Director's Expense Reimbursements

The former executive director's expense reimbursements were not adequately reviewed or approved.

We found no review or approval for 8 (\$5,243.84) of the former executive director's 18 reimbursement requests for fiscal year 1995. The other 10 reimbursement requests were approved by the former chief financial officer who worked for the director.

The housing authority's internal travel and expense policy does not address approval or review of the executive director's expense reimbursements.

We found that on four occasions during fiscal year 1995, the former executive director extended his stay for his own convenience while attending work-related out-of-state conferences. He requested and received reimbursement for all lodging, meals, parking, and other miscellaneous expenses related to these trip extensions. These reimbursements totaled \$823.86. In three of the four instances (\$556.43), the requests for reimbursement were not reviewed or approved.

RCW 42.24.090 states in part:

No claim for reimbursement of any expenditures by officers or employees of any municipal corporation or political subdivision of the state for transportation, lodging, meals or any other purpose shall be allowed by any officer, employee or board charged with auditing accounts unless the same shall be presented in a detailed account . . . All claims . . . shall be duly certified by the officer or employee submitting such claims on forms and in the manner prescribed by the state auditor.

The housing authority's internal policy, no. 200-01, 'Travel and Expense Policy', Section 5 (D)(e) states:

No reimbursement for lodging or subsistence or travel shall be paid to an employee for time away from his/her official station or residence incurred traveling to a destination for his own convenience in advance of a reasonable time for arrival nor shall he/she be paid for extra time incurred if he/she remains at the destination following an official meeting other than a work assignment whenever it is for his/her own convenience.

The former executive director stated that by extending his stay over weekends, he was able to purchase less expensive airfare. However, no documentation exists to support his statement or to prove the amount of saved airfare exceeded the additional lodging and subsistence expenses.

We recommend the board of commissioners consider seeking reimbursement for these expenses. We also recommend the housing authority's travel policy be amended to require board of commissioners' approval of the executive director's expense reimbursements. We further recommend out-of-state travel extensions (if allowed) be preapproved and supported by appropriate documentation demonstrating the cost savings to the housing authority.

4. Vacancy Reports Should Be Accurate

Our tests of the vacancy reports for several apartment complexes managed by the housing authority revealed at least one complex, Chateau Rainier, was not properly reporting and recording vacancy information.

Apartment complex managers prepare weekly vacancy reports which are used by the board of commissioners to monitor how well the housing authority is managing its properties. We compared the vacancy reports for January 1996 to the Rent Roll Report generated by the finance department based upon rental income received. The vacancy report for Chateau Rainier showed 11 units vacant, the Rent Roll Report showed 14. We determined the discrepancy was because the apartment manager does not list a unit as vacant if a future renter is known. A future renter may not occupy the unit for some time.

As a result, the board is relying upon misleading information.

We recommend apartment complexes managers consistently report actual vacancies on the weekly vacancy reports to provide accurate information to housing authority management and the board of commissioners.

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Schedule Of Federal Findings

All Programs

1. Audit Reports Should Be Completed In Accordance With Federal Requirements

The fiscal year 1995 annual audit for Pierce County Housing Authority could not be completed in a timely manner as required by federal regulations.

The delay in completion of the audit was caused by the housing authority's lack of accurately prepared financial statements, poor internal controls and poor condition of the accounting records, as noted in the findings throughout this report.

OMB A-128, Section 13, Subpart f, states:

The reports shall be sent within 30 days after the completion of the audit, but no later than one year after the end of the audit period unless a longer period is agreed to with the cognizant audit agency.

The delay in reporting the audit results denies the federal government and other users timely information from which to make funding decisions and other pertinent decisions which stem from this report.

We recommend the housing authority implement corrective action to resolve the internal and accounting control problems noted in this report.

CFDA 14.855 Section 8 Voucher and CFDA 14.857 Section 8 Certificate Programs

2. The Housing Authority Should Strengthen Internal Controls Over Section 8 Financial Information

Internal controls over the housing authority's accounting system were not adequate to ensure the accuracy of accounting information as it pertains to the Section 8 certificate and voucher programs. These weaknesses in the internal controls affected the housing authority's ability to prepare accurate year-end federal financial reports.

Upon further investigation, we found numerous mispostings related to the authority's attempt to transfer the Section 8 certificate and voucher programs' operating reserves to general operations to help pay debt service obligations of the authority's enterprise funds. One error compounded another. Because accounts were subsequently misstated, management continued on several occasions throughout fiscal 1995 to transfer nonexistent funds from the Section 8 reserves to general operations, sporadically creating more posting errors.

These errors were compounded by several internal audit adjustments made to the Section 8 certificate and voucher operating reserve accounts. We found no support for these adjustments.

At year-end, the housing authority's former controller prepared and submitted form HUD-52681 to HUD. However, due to the internal audit adjustments and posting errors stated above, the amounts reported from the housing authority's general ledger did not agree to HUD's internal records. HUD approved the form but revised several of the figures, including adjusting the voucher program operating reserve from the June 30, 1995 ending balance of \$33,448.63 to \$83,201.39 and the certificate operating reserve from \$131,099.57 to \$154,625.99.

The former controller then attempted to adjust the housing authority's operating reserve accounts to HUD's figures. However, because of the above mentioned internal audit adjustments and posting errors, the adjustments made by the former controller actually only compounded the earlier errors.

Per review of the detailed records and discussions with current housing authority accounting staff, the actual balances for both the Section 8 certificate and voucher programs should be zero as **all** surplus funds for fiscal year 1995 had been transferred to help service debt obligations. As a result of our audit, the housing authority finance department has already corrected these accounts and adjusted them to zero, accordingly.

These errors resulted from inadequate internal controls. There was a lack of supervision, authorization, documentation and training. The former controller was responsible for Section 8 financial information and reporting. None of the controller's journal entries were reviewed by the former chief financial officer or any other person in the finance department. Further, the housing authority's interfund transactions are quite complicated given the computerized accounting system utilized by the housing authority. The accounting system automatically "creates" an interfund data entry if one is not booked; the former controller may not have completely understood the process.

Lack of controls increases the risk that errors or irregularities could go undetected for some time and impairs the ability to prepare accurate and timely financial information.

We recommend housing authority officials develop adequate internal controls whereby:

- a. All journal entries are reviewed and approved
- b. Supporting documentation is prepared and retained for all adjustments
- c. Personnel are fully trained in utilizing the computerized accounting system.

We further recommend an employee in the finance department review and reconcile the general ledger accounts to the amounts as reported by HUD.

3. The Housing Authority Should Calculate, Record, And Report Section 8 Administrative Fees Utilizing The HUD Approved Methodology

The housing authority earns administrative fees for managing the Section 8 certificate and voucher programs. The fees are calculated by using HUD prescribed guidelines and are reported on a supplemental schedule to form HUD-52681, 'Voucher for Payment of Annual Contributions and Operating Statement.' The amounts calculated and reported as earned on the administrative fee supplemental schedule for nine months of fiscal year 1995 did not agree with the housing authority's general ledger.

The housing authority's accountant computed all of fiscal year 1995's administrative fees earned under the blended rate method. He did so by posting fees for 1995 at the beginning of the year and adjusting out the differences between recorded and actual fees earned. When the accountant resigned, the housing authority's then controller took over the calculation of the administrative fee and realized there was a discrepancy. The housing authority had earned substantially more than had been claimed (\$10,839.54 in certificates and \$29,020.17 in vouchers) and billed HUD for the difference, which HUD paid.

Upon receipt, the amounts were incorrectly recorded in the housing authority's general ledger, resulting in overstated Section 8 and understated general operations revenues. Current personnel in the finance department have subsequently corrected these errors.

These errors can be attributed to inadequate internal controls. There was a lack of oversight or review of the former accountant's work and the former controller's journal entries which misposted the additional administrative fees earned. In addition, the former accountant was allowed to prepost a year's worth of journal entries and then 'adjust out' differences.

Lack of controls increases the risk that errors or irregularities could go undetected for some time. The misposting of the additional fees earned remained undetected until our audit.

We recommend housing authority officials develop adequate internal controls including proper oversight and review, and the posting of transactions as they occur.

4. The Housing Authority Should File Federal Forms In A Timely Manner

Section 8 certificate and voucher forms required to be submitted to HUD were filed late.

HUD Handbook 7420.7, Chg-4, step 12.5 states:

The PHA must submit form HUD-52672, 'Supporting Data For Annual Contributions Estimates' and form HUD-52673, 'Estimate of Total Required Annual Contributions' to the field office for approval . . . The forms must be submitted at least 90 calendar days before the beginning of each PHA fiscal year.

As the housing authority's fiscal year began on July 1, 1994, form HUD-52672 and HUD-52673 were required to be submitted 90 calendar days prior to that date, on April 1, 1994. For both the Section 8 certificate and voucher programs, the forms were filed on May 6, 1994. Thus, the housing authority was not in compliance with the required filing deadlines for those reports.

No members of management responsible for the filing of these reports remain employed by the housing authority; current finance staff do not know why these forms were filed after the required deadline.

Failure to file federal financial reports within the deadline potentially jeopardizes the housing authority's ability to continue to receive federal funds.

We recommend housing authority officials implement controls to ensure all required federal financial reports are filed within the applicable deadlines.

CFDA 14.850 Public Housing Program

5. The Public Housing Management Assessment Program (PHMAP) Certification Submitted To HUD Should Be Reviewed By Management

The PHMAP certificate is used by HUD to assess the management performance and capabilities of the housing authority in managing low-income housing. The PHMAP report submitted to HUD for fiscal year 1995 contained the following errors:

- a. The 'average number of days to bring non-emergency maintenance items to Housing Quality Standards' was 17 rather than the 4 days reported.
- b. The 'average number of days to correct identified systems deficiencies' was 23 rather than the 2 days reported.

PIH 95-31, *Interim Guidance for Annual Audits of Public Housing Agencies and Indian Housing Agencies by Independent Auditors* Chapter 5, Section 5-2, states in part:

The PHMAP assessment is performed by field offices on an annual basis. The PHA is required to certify to several of the indicators after the end of each fiscal year, and is required to maintain supporting documentation for post-review purposes. As a result of the PHMAP assessment, the PHA is rated as either high-performing, standard or troubled and/or mod-troubled.

These errors were the result of inadvertently using the prior year data and could have been prevented with proper review.

Per HUD, neither of the above errors had an effect on the housing authority's PHMAP score or performer status. However, such errors could potentially mislead HUD in rating the housing authority's performance and, as a result, HUD may inappropriately reduce requirements such as the submission of an indirect cost allocation plan.

We recommend housing authority officials develop and implement controls, including review, to ensure figures as presented on the PHMAP are accurate and supported by underlying records.

CFDA 14.850 Public Housing, CFDA 14.855 Section 8 Voucher, and CFDA 14.857 Section 8 Certificate Programs

6. The Housing Authority Should Adhere To Compliance Requirements Pertaining To The Family Self Sufficiency Program

If the earned income of a family participating in the Family Self Sufficiency (FSS) program increases, the housing authority must establish an 'escrow account' for the family and credit to this account a portion of the increase in rent that would otherwise result from the increases in earned income.

One family participated in the housing authority's (FSS) program during fiscal year 1995. The family entered the program December 1994 and withdrew February 1995 with a total escrow of \$534. The escrow account was not established by the housing authority until November 1995, nearly eleven months later. Neither general nor subsidiary ledgers for the FSS program were established until October 1995.

HUD interim Public and Indian Housing (PIH) Compliance Supplement, PIH 95-31, *Interim Guidance for Annual Audits of Public Housing Agencies and Indian Housing Authorities by Independent Auditors*, Chapter 7, requires the auditor to:

Determine that the general ledger combined FSS investment account is supported by a subsidiary ledger showing each family's FSS escrow balance

Determine that the FSS funds are deposited into a HUD approved investment.

The finance staff responsible for the FSS program during fiscal year 1995 are no longer employed by the housing authority. Current staff do not know why the employees responsible for depositing these funds failed to do so, or why general and subsidiary ledgers were not established at the time the family became active in the FSS program.

We recommend the housing authority make timely deposit of FSS funds in a HUD-approved investment account and maintain appropriate general and subsidiary ledgers.